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OCT 26 1957

The Vice President
The Capitol
Washington 25, D. C.

Dear Dick:

I read with a great deal of interest the text of your remarks before the International Industrial Development Congress in San Francisco last week.

I just wanted to let you know that I thought you did an outstanding job of setting the record straight and to add my congratulations to the many you have already received.

Faithfully,

Signed

Allen W. Dulles
Director

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Text of Address of
THE VICE PRESIDENT OF THE UNITED STATES
before the
INTERNATIONAL INDUSTRIAL DEVELOPMENT CONFERENCE
San Francisco, California
October 15, 1957

I am honored to bring greetings from the President of the United States to the representatives of 57 nations attending this historic conference. And as a Californian, I am proud that you have selected the birthplace of the United Nations, one of the world's great centers of international commerce, the City of San Francisco, as your meeting place.

I join with you in congratulating those who planned this Conference for bringing together probably the most outstanding panel of experts in the field of international investment ever assembled for a meeting of this type. In the presence of such company, I would not be so presumptuous as to try to speak authoritatively on the technical subjects in which I realize you are primarily interested. Instead, with your permission, I would like to report to you tonight on some of the current developments in Washington which may affect directly or indirectly the problems which you are considering,

It will be no surprise to you to hear that the major topic of discussion in Washington, just as in San Francisco, Moscow, and the cities from which you come, is the Soviet satellite now circling the globe.

Let us consider first what the launching of this satellite means from a military point of view,

There has been a great deal of loose talk to the effect that somehow this one event has changed the balance of military power in the world today. It is time that the record be set straight. Militarily the Soviet Union is not one bit stronger today than it was before the satellite was launched. The Free World remains stronger militarily than the Communist World. And we can meet and defeat any potential enemy who might dare to launch an attack. The only major military significance of this event is that the Soviet Union

demonstrated again what we had known before -- that they had developed the capacity to fire a missile a great number of miles,

But at the same time we could make no greater mistake than to brush off this event as a scientific stunt of more significance to the man in the moon than to men on earth. We have had a grim and timely reminder of a truth we must never overlook -- that the Soviet Union has developed a scientific and industrial capacity of great magnitude.

If the Free World is to survive we cannot rest on our past achievements or our present position of military superiority. We must constantly push forward on all fronts -- military, economic and moral -- if we are to defeat the very real threat which the Communist empire poses to free men everywhere.

The launching of the satellite will have rendered a signal service to the cause of freedom if only we react strongly and intelligently to its implications. Let us resolve once and for all that the absolute necessity of maintaining our superiority in military strength must always take priority over the understandable desire to reduce our taxes.

May I now turn to the direct bearing I believe this spectacular event has on the specific issues being considered by this Conference. No more dramatic incident could have occurred to remind both the Communist and the Free World of the increasingly terrifying aspects of modern warfare. As that realization increases, the likelihood that any nation will risk national suicide by launching aggressive war is reduced.

But if the fearful nature of modern weapons is a deterrent against resort to all-out atomic war, it is just as certain a stimulant to the Cold War. Mr. Khrushchev himself has declared that the Communists would prefer to gain their objective of world domination through methods other than military conflict. This does not mean that we should ignore the tremendous military threat posed by Russian power. It does mean that we must be prepared for an all-out Communist economic offensive to win the allegiance of hundreds of

millions of people in the uncommitted world, as well as even some of those in the Free World.

The Kremlin has offered us a direct challenge. It proclaims to the world that a slave economy can out-produce a free economy. It promises to the developing areas of the world that the Communist system can do more for them in a shorter time than the system of private enterprise which is the economic basis of the Free World. And the spectacular success of the satellite project is being held up as proof of the superiority of the Communist system.

As far as the average citizen is concerned, the record fortunately is on our side and not theirs. The contrast between the record prosperity of Western Germany and the dismal poverty of Eastern Germany most eloquently demonstrates the superiority of a free society over the Communist system in producing the material well-being which the Communists have so long claimed as their special province.

We believe that free men in the long run will out-plan and out-produce a slave economy. But we cannot ignore the fact that a dictator state, as recent events prove, can in the short run achieve spectacular results by concentrating its full power in any given direction. That is why the challenge we face in the economic field is one which it would be folly to underestimate.

This is particularly true in view of the fact that the Communists are concentrating their efforts on the newly-developing countries of Asia and Africa. These people are now in revolution, not a political revolt, but a world revolution of people's expectations -- the assertion by all peoples of their claim to a greater share of the world's goods. The spirit of this revolution is evoked by two words, growth and industrialization, with the almost universal belief that the second is the key to the first.

In the course of this revolution, the steel mill and the hydroelectric plant have come to seem much more than economic needs. They have become

symbols of the pride and hopes of whole nations. And for thoughtful men anywhere in the Free World the question must be faced: How may these hopes find reasonable fulfillment?

The Communist World is willing to promise that it will help fulfill these hopes. It will do this in spite of its own desperately low standard of living. It is a known fact that Communist leaders will impose any sacrifice upon their own people in their quest for world power. And their recent scientific triumph shows that, in the short run, they have the skill and resources to do what they consider important.

We know, of course, that such aid will be short-lived and deceptive. But if it succeeds in extending Communist rule throughout Africa and Asia, the Kremlin will have assured its victory in the battle for the world. It can use police power to keep these peoples in subjection. It will then control their immense wealth in oil, uranium, copper, and many other materials essential for the economic life of the Free World. The Western World will be forced to surrender without the firing of a shot.

This is a real threat -- not so dramatic or spectacular as Sputnik and the ICBM -- but in my opinion potentially more dangerous in the long run. We dare not ignore the military threat that these events have posed, but it would be equally folly to ignore the economic weapons that have been mounted against us. The first may never be used; the second certainly will be used.

I am confident that we can meet and defeat this challenge provided we base our policies on the fundamental principle which is the generating force behind this Conference -- the recognition that the most productive source of economic progress is private rather than government enterprise.

The private initiative, the private responsibility, and private capital which you represent are the motors of economic progress. The economic growth which you can generate is vital to the future of the whole Free World.

I say this fully recognizing that there has been and is an important place for government action. Ever since the war, the U.S. Government has conducted the most enormous peace-time banking operation in the history of government finance. The total of our grants and loans abroad in that period is nearly \$60 billions. Inevitably, there was some waste in the handling of so huge a sum,

But, on balance, it was anything but wasted. It has protected and raised standards of living in a period of costly rearmament. It laid the basis for the vast expansion of trade at a time when markets were wrenched from their traditional patterns by Communist violence. It has helped to hold the Free World together at a time when Communism was doing its best to tear us apart. It was and is an achievement of which Americans can be proud.

But government capital is in a sense crisis capital. It will have a vital role to play as long as the world crisis is with us. Wherever it has an opportunity to strengthen free economies against the shoddy temptations of Communist trade or the menace of Communist subversion, I believe we should use this weapon of government finance as boldly as Congress will permit.

However, we must recognize that government aid cannot possibly meet the problem with which we are confronted. The total amount of investment which must flow from capital surplus areas like the United States to capital deficit areas during the next few years must substantially increase, rather than decrease. The only source of investment funds that can be greatly expanded is private capital. It is consequently the only source that can possibly meet the need.

There are limits to what government can do. There is partly the limit imposed by budgetary problems. But above all there is the limit imposed by our conviction that free private enterprise is the preferable medium for aid for the newly-developing countries.

In many nations, the pattern of economic development is being shaped for a century ahead. If this pattern is statist, then human freedom will be the loser. Concentration of power is one of the great problems of our day.

Freedom is essentially personal. It is exercised only with great difficulty through impersonal groups. For this reason, it is vital that newly-developing economic systems, so far as possible, follow a pattern that fosters rather than limits human freedom.

Private capital has other merits which government capital lacks. It is the kind of money which, in the old Roman phrase, has no smell. Its home government cannot order it to be spent in one country rather than another, and cannot attach political or diplomatic strings to its uses.

It carries no ideology with it, other than the reasonable expectation of safety and profit. But it does carry something else with it: Brains. The managerial skills and imagination of private capital are the best assurance that it will in fact create the new wealth that both lender and borrower are aiming at.

We need a spectacular increase of investment by American and other businessmen directed especially to the developing nations of the world.

What should the goal of private capital in the United States be in this field? Last year American new investment abroad totalled almost four billion dollars. This amount seems large, but if the United States were investing abroad the same proportion of our national income that Great Britain invested abroad in 1910 we would be investing, not four billion dollars a year, but nearly thirty billion.

I do not suggest that we could recapture the world of 1910 even if we wanted to. But certainly it is not unreasonable to set as our goal doubling or tripling American investment abroad in the next ten years. But we cannot expect this to happen automatically.

There are certain things which the United States can do, that the governments of countries in which money is to be invested can do, and that American businessmen abroad can do to stimulate the increase in foreign investment the world needs.

First let us consider what steps the capital deficit nations can take to encourage private investment from abroad. There must be at the outset recognition of the fact that the world shortage of capital which evidences itself in rising interest rates has forced a sharp measure of competition for the capital which is available for foreign investment. Any government that is serious about wanting private capital will necessarily enter this competition. It can set the conditions which will either induce that capital to flow or stop it cold. It can treat foreign capital as something between a public enemy and a necessary evil, or it can make the kind of rules under which private capital can do its best work.

Let me give an example. Whatever one may think of Premier Nasser's right to "Egyptianize" the Suez Canal -- and our government has not disputed his right -- it cannot be denied that he made Egypt less attractive to new capital than it was before. In contrast we see the results in countries like the Netherlands, Northern Ireland, Mexico or our own independent Commonwealth of Puerto Rico, where the governments have set up active and efficient bureaus and hospitable policies to promote and welcome foreign capital, and as a result are getting more of it than ever before.

The Government of the United States would never presume to tell any other government what its policy should be toward foreign investment, but the owners of private capital will inevitably take note of the investment climate before moving abroad.

Let us now see what the Government of the United States can and should do to encourage private investment abroad. I would suggest the following as a minimum program for consideration:

The economic sections of our embassies abroad should be

up-graded and strengthened both in quantity and quality. Every American Embassy should be staffed with qualified personnel who can devote an adequate amount of their time and energy to the active promotion of policies which encourage private investment.

When tax revision becomes feasible, the Congress should pass a tax reform which the President has twice urged. He would extend to investors in other parts of the world the 14-point income tax credit for which Western Hemisphere Trade Corporations are already eligible.

The Congress should also consider the feasibility of passing a tax reform similar to one adopted by the United Kingdom a few months ago. This would defer U.S. taxes on income and profits earned entirely abroad until they are actually paid in dividends to the stockholder or the parent company. It would give American overseas traders and investors the same encouragement some of them now seek by incorporating abroad. It would immediately increase the funds available to such companies for additional foreign investment, yet in the long run the U.S. treasury and foreign treasuries would also gain by the tax on income from a larger investment base.

We should channel more of our governmental financial operations abroad through private investors and enterprisers, U.S. and foreign. Specifically, Congress could require (instead of permitting as at present) that at least 25 per cent of the foreign currencies we now acquire under our agricultural aid program be made available for loans to U.S. business in those countries.

The new 300 million dollar developmental fund should be set up in such a way that in its administration and policies it does not become merely a pale carbon copy of either the Export-Import Bank or the ICA. The Administration and the Congress intended that this fund fill a function which is new and distinct from those being served by existing agencies. Its primary purpose should be to channel funds into private enterprises which cannot satisfy the borrowing requirements of the Export-Import Bank.

We should initiate through international organizations such as the World Bank, studies which could examine the feasibility of setting up a privately-operated international investment guarantee fund. Its object would be to protect both present and future investments from the hazards of expropriation, devaluation, blocked currencies, and similar risks.

Because trade is the great generator and vehicle of the capital the world so badly needs, the Reciprocal Trade Agreements Act should be extended for at least 5 years when it comes up for renewal in the next session of Congress. This action would demonstrate permanent and expanding interest of the U.S. in world trade. Whether in order to get paid for our exports, or to get a return on our investments, or simply to assure ourselves of the most economical source of raw materials, the U.S. must become an ever larger importer. The Reciprocal Trade Agreements Act is our best assurance that these imports will be accessible to us on a fair and non-discriminatory basis.

For the same reason we should complete our membership in the Organization for Trade Cooperation. This organization, which the U.S. helped to found, is a place where the established system of multilateral tariff bargaining and the rules of trade reciprocity can be recorded and systematized. It asks nothing of us that we have not already been doing. Not to join it would be an act of gross self-deception and would mislead the rest of the world as to our real interest and policy.

We should pass legislation, long since recommended by the President, to simplify certain antiquated and unjust methods of valuation in our customs procedures.

So much for what governments can do. There are also certain obligations that private investors should assume if they are to share in the increased opportunities of investment abroad.

Their operations must be based first of all on the 20th Century

principle that the primary purpose of foreign investment is to create new wealth rather than to exploit a newly-developing country.

American personnel abroad should always be trained to be Ambassadors of good will as well as competent technicians.

The training of foreign nationals to assume managerial as well as subordinate responsibilities should be given top priority.

I would not suggest that these proposals I have recommended are all inclusive. But the adoption of such a program could provide the necessary stimulus for a dramatic expansion of private investment and trade throughout the world.

The world of tomorrow is in our hands,

It can be a world of peace, with political freedom, economic growth, and the steady abolition of world poverty.

But it can also be a world of hatred and suspicion, perpetually on the verge of war.

It can be a free world, or it can be poisoned by statism or totalitarianism.

It can produce for the needs of families, or it can produce for the needs of armies.

The choice between these two worlds must be made by our own generation. If freedom loses, it may be a century before it can be regained. We ourselves may be starved for essential raw materials and crushed without a single warlike act.

Americans can never again live in isolation. Either we march into the future, together with other free nations, into a world of peace and prosperity, or we decline into obscurity and failure, as a people who had not the vision to see the world as it is, or who had not the courage to face up to duty.

The very fact that this Conference is being held proclaims to the world that the forces of freedom have the strength, the vitality, and the determination to win the great struggle for the world.